Dominion Foundries and Steel, Limited

1974 Annual Report

Our product is steel. Our strength is people.

Highlights

	1974	1973	Increase (Decrease)
Production of ingots and castings —net tons*	**3,060**	3,036	0.8%
Sales*	**$681,636**	$519,558	31.2%
Net income*	**$ 70,402**	$ 52,541	34.0%
Net income—per common share	**$ 4.41**	$ 3.29	
Net income—percent of sales	**10.3%**	10.1%	
Net income—percent of average common shareholders' equity	**18.7%**	15.8%	
Dividends declared—total*	**$ 20,825**	$ 16,277	27.9%
Dividends declared —per common share	**$ 1.26**	$ .97½	29.2%
—per preferred share	**$ 4.75**	$ 4.75	—
Capital expenditures —manufacturing*	**$ 84,837**	$ 37,566	125.8%
Expenditures on mining properties*	**$ 5,117**	$ 3,162	61.8%
Depreciation*	**$ 34,884**	$ 34,940	(0.2%)
Average number of employees	**11,500**	10,600	8.5%
Number of holders of common shares	**16,110**	16,272	(1.0%)

*In thousands.

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On pourra se procurer le texte français de ce rapport annuel en s'adressant au secrétariat de la Compagnie, case postale 460, Hamilton, Ontario.

The Annual and Special General Meeting of Shareholders will be held at the offices of the Company in Hamilton, Ontario, on Friday, April 25, 1975, at 12:00 o'clock noon.

Directors

Harry N. Bawden
Director, Dominion Securities Corporation Harris & Partners Limited, Toronto

George H. Blumenauer
Chairman and President, Otis Elevator Company Limited, Hamilton

R. Ross Craig
Executive Vice President—Commercial

Robert C. Dowsett
President, Crown Life Insurance Company, Toronto

Dr. John R. Evans
President, University of Toronto, Toronto

William C. Hassel
Vice President—Operations

Howard J. Lang
Chairman and Chief Executive Officer, Canron Limited, Montreal

John D. Leitch
President, Upper Lakes Shipping Ltd., Toronto

James L. Lewtas, Q.C.
Partner, Campbell, Godfrey & Lewtas, Toronto

W. Harold Rea
Chairman, Great Canadian Oil Sands Limited, Toronto

John G. Sheppard
Executive Vice President—Financial

Frank H. Sherman
President and Chief Executive Officer

Officers

Frank H. Sherman
President and Chief Executive Officer

R. Ross Craig
Executive Vice President—Commercial

John G. Sheppard
Executive Vice President—Financial

David A. Lindsey
Vice President—Raw Materials, Purchases and Traffic

William C. Hassel
Vice President—Operations

F. John McMulkin
Vice President—Research

William J. Stewart
Vice President—Product Quality and Development

Jack Plumpton
Vice President and Comptroller

David H. Samson
Vice President—Engineering

Paul J. Phoenix
Vice President—Planning

Donald A. R. Pepper
Vice President—Personnel

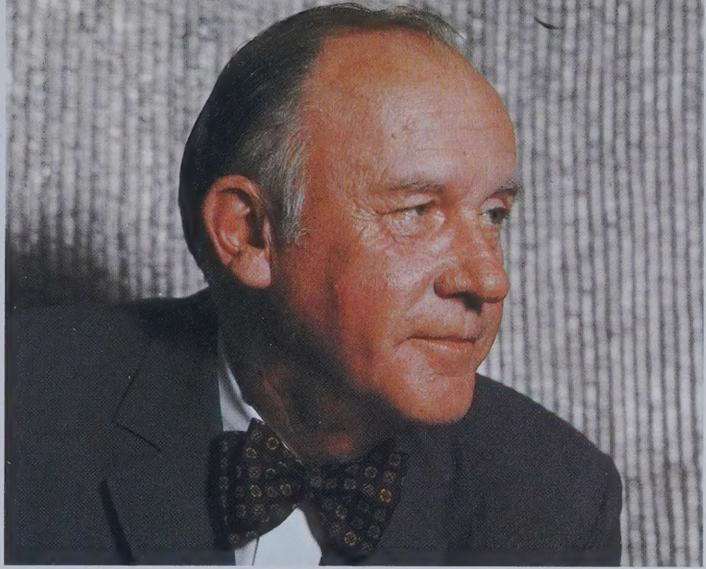
Thomas Van Zuiden
Treasurer

Dorothy M. Cauley
Secretary

Alan D. Laing
Assistant Comptroller

H. Graham Wilson
Assistant Secretary

Bill P. Solski
Assistant Treasurer



President's message

In '74 we had the best year in our history. Steel production and sales were higher and the result was a record net income of $70 million.

During the year, we supplied the Canadian market with steel at prices competitive with other domestic producers and lower than elsewhere in North America or probably throughout the western world. We did this despite the necessity of raising our prices to cover rising employment and energy costs and unprecedented increases in the costs of major raw materials. For example, a comparison of December '74 with December '73 prices shows coal increased as much as 97%, fuel oil 92% and scrap 44%. Tin and zinc were up 16% and 32% respectively.

In May '74 the Federal Government initiated an inquiry into steel industry profits. The Inquiry found that the industry and the individual producers were not making profit margins greater than normal. The report of the Inquiry also observed that "industry in this country currently purchases steel at prices lower than those prevailing in any other Western industrialized nation, has enjoyed a reasonable supply of this prime product and has witnessed the development of a domestic steel industry at least abreast, if not in the vanguard of world steelmaking technology".

Our business is basically to supply steel for the Canadian market. As a result, exports have always been a small part of total shipments. Although we could get higher prices outside Canada in '74, we reduced our export tonnage. We believe it would have been wrong, both short-term and long-term, to have taken steel from Canadian customers to obtain higher prices in the export market.

To meet the growing Canadian demand for steel, we have in progress an expansion program which is intended eventually to double our capacity. Profits appropriate to our very large investment are vital and the re-investment of a substantial amount of these profits will be necessary to finance this expansion, particularly at a time when inflation and high interest rates are increasing construction costs so rapidly.

The assurance of supplies of high quality raw materials is essential to us, both for our current needs and the additional supplies we will require for our expanding steelmaking operations. Ownership of our iron ore sources continues to be an important part of our raw material supply. In '74 we acquired a 16% interest in the expansion of an iron ore mine in Minnesota from which we expect to receive approximately 675,000 gross tons of pellets annually. Production should begin in late '76. We are also investigating the potential for the future development of iron ore properties in Northern Ontario.

To ensure the long-term availability of coal, we are considering ownership interests in substantial coal deposits in Western Canada and are continuing to look for interests in properties in the U.S. We are also currently negotiating with Eastern Associated Coal Corp. to increase our supplies from their Kopperston mine.

The Board of Directors accepted, with regret, the resignation of Mr. S. Robert Blair from the Board. Mr. Blair made an important contribution to the Company during his time as a Director. To fill the vacancy, the Directors elected Mr. Robert C. Dowsett in February 1975. Mr. Dowsett is President of Crown Life Insurance Company.

In 1974 D. A. R. Pepper was appointed Vice President, Personnel. Mr. Pepper joined Dofasco in 1935 and was Director of Personnel prior to this appointment.

1974 was a very successful year. I feel we can be justly proud of our record performance which was due in large part to our employees' individual efforts. I would like to thank them for their enthusiasm and continued support.

Although the picture is changing almost daily and the outlook for 1975 is unclear, we expect to have the plant operating at capacity for at least the first six months.

F. H. SHERMAN
President

Hamilton, Ontario
March 13, 1975

John Hofman, a Keeper Helper in the blast furnaces, has been with Dofasco for four years.

Financial

Our net income was $70 million, a new record. Increased selling prices and record shipments of most steel products combined with greater income from subsidiaries, offset sharply higher raw material, labour and energy costs. Return on sales improved slightly, from 10.1% in '73 to 10.3% in '74.

Our subsidiary companies had a good year. National Steel Car Corporation, Limited of Hamilton which manufactures railway rolling stock had significantly higher sales and earnings than in '73 when a strike affected its operations. Prudential Steel Ltd. of Calgary had improved sales and profits from its pipe producing operations. Also, the 1973 figures only include the results of nine months operations from the date of acquisition in April '73. Baycoat Limited of Hamilton increased its sales of prepainted steel and had higher profits. BeachviLime Limited which provides us with our lime product requirements also performed well.

Financial condition and capitalization

At the end of '74 we were in a strong financial position, with working capital up $53 million to a total of $160 million of which $54 million was invested in short-term securities. During the year, new revolving bank credit terms were arranged, making available firm credit of up to $100 million Canadian until December 31, 1982. No bank credit was used throughout '74. We borrowed $50 million during the year through the issue of 10% sinking fund debentures maturing June 1, 1994.

Effective April 1st, 1974, the quarterly dividend on common shares was increased from 25¢ to 30¢ and a further increase to 36¢ per quarter became effective January 1st, 1975, for a total increase in the twelve months of 44%. Common and preferred dividends declared in '74 totalled $20,825,000.

Federal budget

We were encouraged by a number of the measures in the November '74 budget. Canadian business will benefit by the indefinite extension of the two-year write-off of new equipment used for manufacturing and processing in Canada. This will assist industry in long-term planning and encourage investment to increase production capacity, resulting in more jobs. Other measures which should improve the financing of major projects include the continuation of the lower tax rate on manufacturing and processing profits, the reduction of the sales tax on building materials and the removal of the sales tax on transportation and construction equipment.

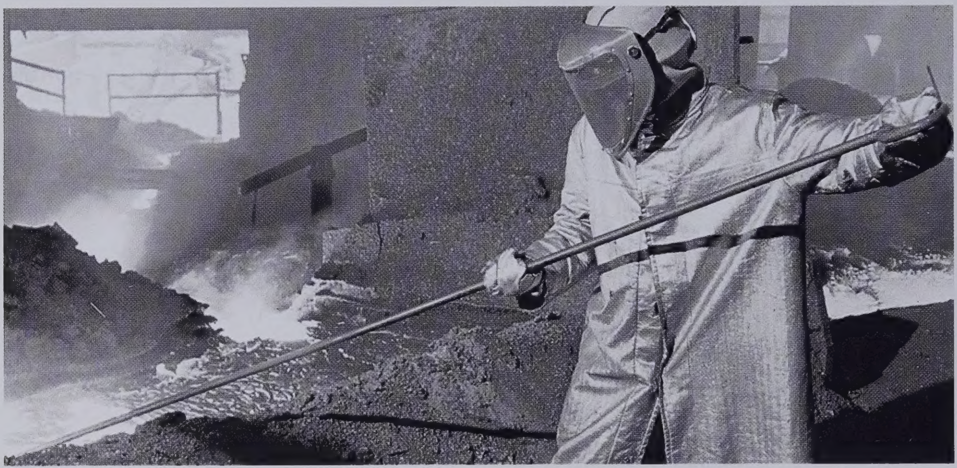
Production and planning

In '74 we set a new record, producing 3,060,315 net tons of ingots and castings. Production records were set in various divisions owing to additional equipment and the excellent efforts of Dofasco people in fully utilizing existing equipment.

Capital expenditures in '74 were $88 million, a record level. Dollars not spent but committed to new facilities amounted to $103 million at year-end.

Our production people worked closely with the planning group who are designing our eventual expansion to 6 million ingot tons annually. Projects completed during the year, underway or being engineered include:

- doubling the size of the central shipping complex, completed in '74;



Debbie Kauffeldt, a Standards Clerk
in manufacturing controls,
has been with Dofasco
for one and a half years.

– six soaking pits completed, increasing ingot heating capacity in the hot mill;
– rebuilding of No. 1 blast furnace at an estimated cost of $17 million, expected to come on stream in April, to increase ironmaking capacity by 20%;
– a major addition to the main office, nearing completion;
– a continuous annealing tunnel furnace in the electrical steels area, expected to begin operating shortly;
– a new 5-stand 72″ cold mill, estimated to cost $56 million and scheduled for completion in late '75;
– a new 66″ hot strip slitter, to be completed in 1976;
– a major expansion of the foundry, scheduled for completion in 1978;
– site clearing and engineering for a new basic oxygen steelmaking plant in Hamilton, with an initial annual capacity of over one million ingot tons and capable of being expanded to four and one half million tons, estimated cost of the first stage $103 million.

Commercial

Record shipments of 2,455,359 net tons of flat rolled products and castings, together with increased steel selling prices and the sales of our subsidiaries resulted in record sales of $682 million, up 31% over '73.

Steel shortages in Canada forced us to continue allocating our products to customers throughout '74. Our sales and production people worked closely to fill customers' needs as fairly as possible and maintain good delivery times. These efforts were successful judging from the number of complimentary letters and comments we have received from many of our customers.

Outlook

We expect capacity operations for at least the first six months of '75. Despite many troublesome areas, we look for strength in the agricultural, railway transportation and pipe and tube industries. Also, some expected increase in business capital spending is encouraging and indicates long-term confidence.

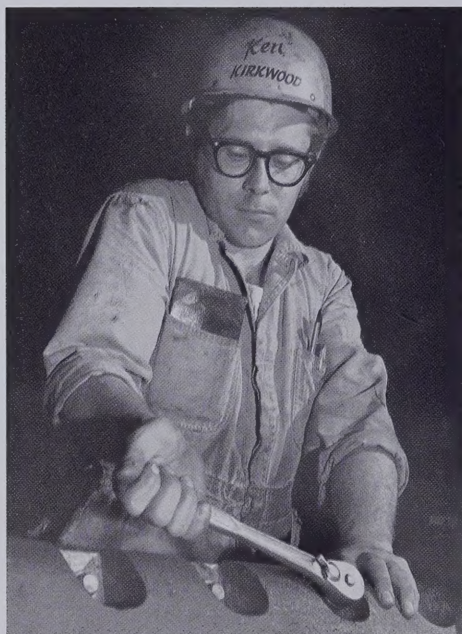
Demand from major steel users will be mixed. The principal problem area is the automotive industry. While Canadian car sales improved slightly overall in 1974, U.S. sales declined 23%. Steel shipments are heavily dependent on the sales of the Canadian automotive parts industry to both U.S. and Canadian car and truck assembly operations. Declining sales in the Canadian and U.S. automotive industry are, therefore, a cause of concern to the steel industry.

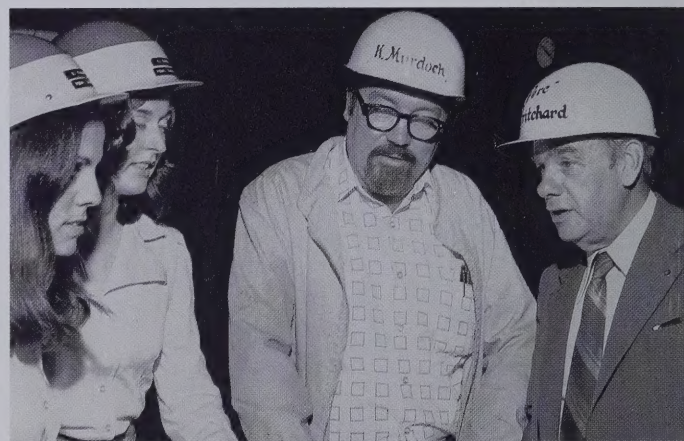
We also look for a drop in steel consumed by the appliance industry due to a slowdown in the housing market and a decline in replacement appliance sales. The decline in housing starts will also reduce steel sales for residential construction.

We expect a great deal of this slack will be taken up by other users. Continued strength in the agricultural sector and


IBM

Domenic Bellucci, a Spellhand in the coke ovens, has worked for Dofasco for thirteen years.





the fairly good demand in industrial construction are encouraging. The outlook for sales of tinplate for food containers is also good.

Prospects for Prudential Steel are excellent. Firm demand for small diameter pipes and tubes should mean capacity operations this year. A new mill to produce hollow structural pipe used in construction and other industrial applications is expected to be in production in the first quarter of '75.

National Steel Car has sufficient orders on hand for capacity operations throughout the year. As a result, we expect another good year for the foundry, National's major castings supplier.

The LRC (light, rapid, comfortable) train, a joint venture of Dofasco, Alcan and MLW Industries, underwent extensive testing in '74 in Canada and the U.S. Tests proved very successful and considerable interest has been shown in this intercity passenger train in both countries.

Raw materials

A major problem affecting the availability of iron ore in '74 was the extended Great Lakes vessel strike which reduced shipments from Wabush Mines. Total production of the three iron ore mines in which we have ownership interests was about the same as the previous year.

Dofasco's iron ore needs for capacity steelmaking operations are well covered for '75. Of the 3.4 million gross tons required, approximately 3.2 million will come from ownership interests and the balance from existing contracts.

Based on annual mine production levels, it is estimated that the proven ore reserves are sufficient to enable production to continue for 24 years at Adams Mine, 25 years at Sherman Mine and 64 years at Wabush.

New collective agreements covering employees at Wabush, Adams and Sherman mines to replace agreements which expired on February 28, 1975 are being negotiated.

During '74, coal availability from our traditional U.S. suppliers was a source of constant concern. Declines in productivity, wildcat strikes coupled with the mine workers' strike in the U.S. caused very significant production losses. Also, the Great Lakes vessel strike delayed deliveries. However, through an agreement with the Seaway Authority, the ship-

Frank Stevens, a Turn Foreman in the oxygen melt shop, has been with Dofasco for thirty-eight years.

ping season was extended and although inventories are extremely low, we were able to receive enough coal for the winter months.

Our coal requirements for capacity steelmaking operations in '75 will be approximately 1.8 million net tons. Arrangements have been made for the supply of approximately 1,650,000 net tons and the remainder of our requirements are expected to be obtained through open market purchases.

Research

In 1974 research projects covered a wide range of products and processes. Some of these are as follows:

A computer program that should improve yields was introduced. The program will permit a more precise calculation of the proportions of raw materials to be used in steelmaking.

Monitoring equipment which operates continuously during steelmaking should contribute to better control of the finishing temperature and carbon content of the steel.

A new system for the recycling of the Stretford solution used in the cleaning of coke oven gases is being engineered. As well as cutting costs, this process will eliminate a disposal problem.

Corrosion studies were conducted by installing new, high-strength, low alloy steels on vehicles which were then exposed to winter road conditions.

The environment

Again in 1974 a significant amount of time and resources went into our anti-pollution work. Much of this was concentrated in our iron and steelmaking operations.

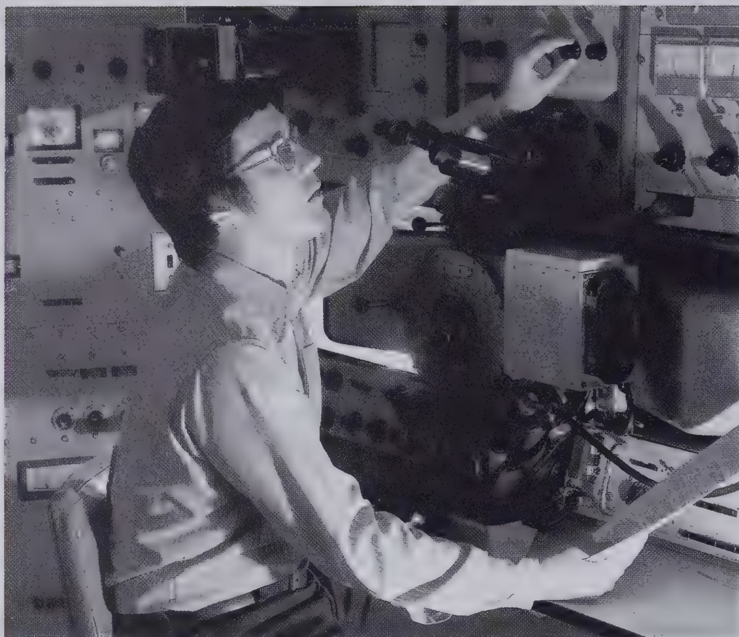
The No. 1 blast furnace is being equipped with additional air cleaning facilities to capture particles emitted during furnace tapping and is expected to begin operating in May.

In the steelmaking division, a system to collect emissions during furnace loading and unloading is being engineered.

An important coke oven project underway is a system to collect fumes that escape during oven unloading; completion is scheduled for August.

The plant which removes phenol from waste water is being


Frank
STEVENS



expanded and is scheduled for completion in '75.

During the year our hot and cold mill pollution control complex underwent modifications. The hot mill water filtration plant is now functioning close to design specifications. The cold mill waste water plant is undergoing start-up trials and is expected to operate on a test basis for some time. The acid regeneration plant, which incorporates a great deal of new and untried technology, experienced start-up difficulties but is now treating over 90% of the waste acid.

In an environmental control program as comprehensive as Dofasco's, the costs are substantial. Since 1969 some $34 million has been spent on environmental improvements including $7 million in '74. Operating costs in '74 totalled $4.8 million, up 20% over '73.

Government and employee relations

Government relations

Our approach has been that there's no use talking to ourselves about business/government problems and relationships. We have to talk to people in governments and make sure there is an understanding of the issues and the implications of legislation they are considering. In '74 this frank exchange continued in our effort to maintain good communications at all levels.

Employee relations

In '74 we employed an average of 11,500 people in our operations including subsidiaries, an increase of 900. Despite generally high unemployment, we had difficulty at times during the year in getting people with the right skills to meet our needs. To help overcome this, the minimum age for employment was reduced to 16 and students were hired on weekends. Also, to maintain operations at capacity, student summer employment was even more important to us and a record 1,100 students were hired.

We continue to provide excellent health and benefit care to employees. Our health program includes a fully staffed medical centre where the emphasis is on preventive medicine. In addition to regular employee checkups, the Company is involved in a study where over 3,000 Dofasco volunteers are being tested in connection with research on the causes of heart disease. Other programs include work with the problems of alcoholism and drug abuse, physical fitness and industrial hygiene. Our recreation department provides over 40 wide-ranging activities for employees and their families. During 1974 over 5,000 participated.

In addition to substantial wage increases, certain health and insurance benefits were improved or added. Modifications were made in weekly disability benefits, increasing the payments and shortening the average waiting period and vision care coverage was introduced. The dental plan was extended to cover retirees, widows and people on long-term disability.

During the year, an expanded incentive program was introduced to recognize the contribution to productivity of all employees, both salaried and hourly.

Because of inflation, supplementary pension payments to retirees were improved and the group eligible for these payments was expanded to include all who retired prior to 1973.

Consolidated statement of income and retained earnings

Dominion Foundries and Steel, Limited

for year ended December 31, 1974
(with comparative figures for 1973—in thousands of dollars)

		1974		1973
Income				
Sales (note 10)		$681,636		$519,558
Cost of sales (excluding the following items)	$526,900		$384,343	
Depreciation	34,884		34,940	
Allotted for employees' profit sharing	11,107		10,033	
Interest on long term debt (less discount on purchase of debentures)	9,678	582,569	7,580	436,896
Income from operations		99,067		82,662
Income from investments (including corporate joint ventures, 1974—$1,164; 1973—$1,145)		7,935		2,079
Income before income taxes		107,002		84,741
Income taxes		36,600		32,200
Net income for year		$ 70,402		$ 52,541
Net income per common share (after preferred dividends)		$ 4.41		$ 3.29

Retained Earnings				
Balance at beginning of year		$289,631		$253,203
Add:				
Net income for year	$ 70,402		$ 52,541	
Discount on preferred shares purchased for cancellation	143	70,545	164	52,705
		360,176		305,908
Deduct dividends declared:				
Preferred shares	987		1,011	
Common shares (1974—$1.26; 1973—$.97½)	19,838	20,825	15,266	16,277
Balance at end of year		$339,351		$289,631

See accompanying notes to consolidated financial statements

Consolidated statement of financial position

Dominion Foundries and Steel, Limited
(Incorporated under the laws of Canada)

December 31, 1974
(with comparative figures at December 31, 1973
—in thousands of dollars)

	1974	1973
Current Assets:		
Cash	**$ 8,586**	$ 11,646
Short term securities and accrued interest (approximating market value)	**53,976**	20,641
Accounts receivable	**76,549**	61,679
Inventories (note 2)	**135,925**	113,073
Prepaid income taxes	**748**	—
	275,784	207,039
Current Liabilities:		
Bank indebtedness	**2,792**	2,855
Accounts payable and accrued charges	**91,367**	63,544
Amounts payable for employees' profit sharing	**10,098**	8,783
Income and other taxes payable	**5,455**	12,403
Dividends payable	**5,915**	4,181
Current requirements on long term debt (note 6)	**120**	8,035
	115,747	99,801
Working Capital	**160,037**	107,238
Fixed assets, less accumulated depreciation (note 3)	**500,307**	447,194
Investments (note 5)	**11,075**	11,157
Unamortized debenture issue expense	**1,314**	626
Sundry assets, at cost	**2,701**	1,818
Capital Employed	**675,434**	568,033
Deduct—		
Long term debt (note 6)	**126,318**	80,719
Deferred income taxes	**132,400**	120,100
	258,718	200,819
Shareholders' Equity	**$416,716**	$367,214
Represented by:		
Preferred shares (note 7)	**$ 20,690**	$ 21,088
Common shares (note 8)	**56,675**	56,495
Retained earnings	**339,351**	289,631
	$416,716	$367,214

On behalf of the Board:

H. N. Bawden, Director

F. H. Sherman, Director

See accompanying notes to consolidated financial statements

Consolidated statement of changes in financial position

for year ended December 31, 1974
(with comparative figures for 1973—in thousands of dollars)

	1974	1973
Source of Funds:		
Operations		
Net income for year	$ 70,402	$ 52,541
Depreciation	34,884	34,940
Deferred income taxes	12,300	7,330
Funds from operations	117,586	94,811
Common shares issued for cash	180	2,475
Decrease in investments	82	184
Proceeds from debenture issue (net)	49,250	—
Other changes (net)	—	398
	167,098	97,868
Application of Funds:		
Purchase of Prudential Steel Ltd. for $4,382 cash, less working capital at acquisition, $1,640	—	2,742
New facilities and equipment		
Manufacturing	84,837	37,566
Iron ore projects	3,160	3,360
Reduction in long term debt	4,401	33,204
Preferred shares purchased for cancellation (less discount)	255	401
Dividends to shareholders	20,825	16,277
Other changes (net)	821	—
	114,299	93,550
INCREASE IN WORKING CAPITAL	52,799	4,318
WORKING CAPITAL AT BEGINNING OF YEAR	107,238	102,920
WORKING CAPITAL AT END OF YEAR	$160,037	$107,238

See accompanying notes to consolidated financial statements

Notes to consolidated financial statements

December 31, 1974

1. **Summary of principal accounting policies—**

The principal accounting policies followed by Dominion Foundries and Steel, Limited and its subsidiaries have been summarized to facilitate review of the consolidated financial statements:

a) Basis of consolidation—

The consolidated financial statements include the accounts of the company and its wholly-owned subsidiaries, as well as the company's share of the assets, liabilities and expenses of its unincorporated joint ventures (Sherman Mine and Wabush Mines). All significant inter-company transactions have been eliminated.

Investments in corporate joint ventures are carried at Dofasco's share of equity therein and advances to such corporations. Dofasco's share of their earnings is included in consolidated net income.

b) Inventories—

Inventories of materials, supplies, work-in-process and finished goods are valued at the lower of average cost and net realizable value. Physical inventory quantities are determined at least annually by actual examination or by aerial survey in the case of certain raw materials.

c) Fixed assets, relines and maintenance costs—

Fixed assets are valued at their original cost, which includes the costs of installation. Costs to bring a mineral property into production are capitalized as part of the cost of the property.

Depreciation is computed on the straight-line method applied to the cost of the assets at rates based on their estimated useful life, as follows:

Buildings	2½ to 5%
Equipment	6 to 7½%
Automotive	20 to 25%
Mining facilities	4½ to 5%

The cost of relining blast furnaces is accrued on a unit of production method over the life of the existing lining.

Repairs, maintenance, research, development, current stripping at mines and quarries and start-up costs are expensed as incurred.

d) Deferred income taxes—

Income tax regulations permit the deduction of certain costs (principally depreciation) at a more rapid rate than the companies use in their accounts. The tax effect of these timing differences is recognized in the accounts as deferred income taxes.

e) Revenue recognition—

Revenues from products and services and related costs are reflected in income when goods are shipped.

f) Pension plans—

The companies have funded retirement plans covering substantially all of the employees. Pension costs charged against income during the year, as determined by independent actuaries, include amounts for current and past service. Costs for unfunded past service will be amortized over periods not exceeding 15 years.

g) Profit sharing on steelmaking operations—

For employees involved in steelmaking operations, Dofasco pays 11% of steelmaking profits annually to The Employees' Savings and Profit Sharing Fund and The Deferred Profit Sharing Plan.

h) Income per share—

Income per share is calculated based on the weighted average number of shares outstanding during the year.

2. **Inventories—**

	1974	1973
Materials and supplies	$ 74,991,000	$ 52,955,000
Work-in-process and finished products	60,934,000	60,118,000
	$135,925,000	$113,073,000

3. **Fixed assets—**

	1974	1973
Manufacturing facilities and equipment at cost	$719,694,000	$642,960,000
Iron ore projects at cost	136,498,000	133,975,000
	856,192,000	776,935,000
Less accumulated depreciation	355,885,000	329,741,000
	$500,307,000	$447,194,000

4. **Commitments—**

The unexpended portion of authorized capital projects at December 31, 1974 amounted to approximately $103,000,000.

The company is also a participant in Eveleth Expansion Company, a partnership formed to expand the development of an existing mine in Minnesota. It is entitled to receive 16% of the expanded production and is committed to pay that proportion of all costs, including interest and payments on debt. Long term borrowing has been arranged by the partnership for the estimated $195 million U.S. total capital cost of the project. Production is expected to commence late in 1976.

5. **Investments—**

	1974	1973
Investment in corporate joint ventures, at equity:		
Shares	$ 906,000	$ 1,090,000
Advances, notes and mortgage bonds	4,940,000	4,670,000
	5,846,000	5,760,000
Coal companies, at cost:		
Shares	435,000	435,000
Advances	4,794,000	4,962,000
	5,229,000	5,397,000
	$ 11,075,000	$ 11,157,000

6. Long term debt—

	1974	1973
6⅜% debentures maturing 1974	—	$ 7,915,000
6½% debentures maturing 1987	$ 28,743,000	29,849,000
9% debentures maturing 1991	46,825,000	50,000,000
10% debentures maturing 1994	50,000,000	—
Term bank loan of Prudential Steel Ltd.	870,000	990,000
Outstanding at December 31	126,438,000	88,754,000
Less current requirements	120,000	8,035,000
	$126,318,000	$ 80,719,000

Requirements for repayment within the next five years are as follows:

1975—$120,000; 1976—$120,000; 1977—$1,228,000; 1978—$3,010,000; 1979—$5,180,000.

The company also has available $100,000,000 Canadian revolving bank credit terminating December 31, 1982 (none of which is being used at December 31, 1974). Interest on advances will be at the rate of ⅜ of 1% in excess of the prime commercial rate. The company has the option to take $25,000,000 of the total in U.S. funds.

7. Preferred shares—

Authorized—500,000 preferred shares of the par value of $100 each, issuable in series.

Issued —250,000 4¾% cumulative preferred shares, Series A, redeemable at the company's option at a premium of $2 to June 1, 1977 and reduced amounts thereafter of which 206,900 shares are outstanding (1973—210,875).

To December 31, 1974, 43,100 shares have been purchased for cancellation (including 3,975 shares during 1974 for $255,000) as a result of which the company has met its obligations to that date with respect to the purchase fund requirements. In compliance with Section 62 of the Canada Corporations Act, retained earnings of $4,310,000 are designated as capital surplus.

8. Common shares—

Authorized—25,000,000 common shares of no par value.

Issued and outstanding—15,746,962 shares (1973—15,737,002).

The 1974 employee stock option plan, which expires March 28, 1984, authorizes the directors to grant options to employees of the company to purchase up to an aggregate of 480,000 of the unissued common shares. The number of common shares covered by each option varies with changes in the optionee's remuneration and therefore cannot be determined until the last year of its term. Options to purchase an aggregate of 33,056 shares have been granted (including 13,168 to directors and officers) at $28⅛ per share. No shares have been issued under the plan and no options are held by directors who are not full time employees.

Up to the expiration of the former stock option plan on April 24, 1974, 393,766 common shares were issued (including 9,960 shares issued during 1974 for cash, $180,000).

The disclosure of fully diluted earnings per share, derived from the possible exercise of outstanding stock options, has been omitted as the effect is immaterial.

9. Retirement plans—

The estimated unfunded past service costs, not included in the accompanying financial statements at December 31, 1974, were $17,000,000.

10. Segment sales—

Consolidated sales include sales by National Steel Car Corporation, Limited of $92,481,000 in 1974.

11. Statutory information—

Expenses for 1974 include remuneration of directors and officers as follows:

a) Fees of twelve directors	$ 85,000
b) Remuneration of thirteen officers (including four directors)	1,010,000
Total remuneration of directors and officers	$1,095,000

The above includes directors' fees paid by National Steel Car Corporation, Limited of $2,600 and Prudential Steel Ltd. of $1,700.

Auditors' report

To the Shareholders of
Dominion Foundries and Steel, Limited:

We have examined the consolidated statement of financial position of Dominion Foundries and Steel, Limited as at December 31, 1974 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies at December 31, 1974 and the results of their operations and the changes in their financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Hamilton, Canada,
January 22, 1975

CLARKSON, GORDON & CO.
Chartered Accountants

Ten year summary of production and financial data

Dominion Foundries and Steel, Limited

	1974	1973	1972
Statement of income data			
Sales*	**$681,636**	$519,558	$443,775
Cost of sales (excluding the following items)*	**$526,900**	$384,343	$334,255
Depreciation*	**$ 34,884**	$ 34,940	$ 32,922
Allotted for employees' profit sharing*	**$ 11,107**	$ 10,033	$ 6,774
Interest on long term debt (less discount on purchase of debentures)*	**$ 9,678**	$ 7,580	$ 9,053
Income from investments*	**$ 7,935**	$ 2,079	$ 852
Income before income taxes*	**$107,002**	$ 84,741	$ 61,623
Income taxes*	**$ 36,600**	$ 32,200	$ 25,500
Net income for year*	**$ 70,402**	$ 52,541	$ 36,123
Financial position data			
Working capital*	**$160,037**	$107,238	$102,920
Fixed assets*—land, buildings and equipment at cost	**$856,192**	$776,935	$733,450
—accumulated depreciation	**$355,885**	$329,741	$295,944
Total other assets*	**$ 15,090**	$ 13,601	$ 14,013
Capital employed*	**$675,434**	$568,033	$554,439
Long term debt*	**$126,318**	$ 80,719	$112,963
Deferred income taxes*	**$132,400**	$120,100	$112,600
Total shareholders' equity*	**$416,716**	$367,214	$328,876
Statistical data			
Production of ingots and castings—net tons*	**3,060**	3,036	2,773
Net income per common share (after preferred dividends)	**$ 4.41**	$ 3.29	$ 2.25
Net income—percent of sales	**10.3%**	10.1%	8.1%
Net income—percent of average capital employed	**11.3%**	9.4%	6.6%
Net income—percent of average common shareholders' equity	**18.7%**	15.8%	11.8%
Net worth per common share	**$ 25.15**	$ 21.99	$ 19.69
Dividends—per common share	**$ 1.26**	$ .97½	$ .90
—per preferred share	**$ 4.75**	$ 4.75	$ 4.75
Income reinvested in the business*	**$ 49,577**	$ 36,264	$ 21,057
Capital expenditures—manufacturing*	**$ 84,837**	$ 37,566	$ 28,907
Expenditures on mining properties*	**$ 5,117**	$ 3,162	$ 2,570
Total dividends declared*	**$ 20,825**	$ 16,277	$ 15,066
Number of holders of common shares	**16,110**	16,272	16,629
Percentage of common shares held in Canada	**96.9%**	96.4%	96.2%
Average number of employees	**11,500**	10,600	9,700

*in thousands.

1971	1970	1969	1968	1967	1966	1965
$380,723	$331,658	$332,610	$280,128	$265,083	$271,086	$268,347
$295,011	$247,988	$235,522	$197,226	$195,860	$199,164	$195,227
$ 28,764	$ 26,246	$ 26,387	$ 24,570	$ 20,465	$ 17,504	$ 14,548
$ 5,429	$ 5,623	$ 6,493	$ 5,893	$ 4,776	$ 5,201	$ 3,356
$ 8,245	$ 3,977	$ 3,530	$ 4,867	$ 4,924	$ 3,569	$ 2,611
$ 1,145	$ 1,578	$ 3,113	$ 2,302	$ 908	$ 609	$ 904
$ 44,419	$ 49,402	$ 63,791	$ 49,874	$ 39,966	$ 46,257	$ 53,509
$ 16,400	$ 16,300	$ 21,800	$ 11,500	$ 15,400	$ 21,700	$ 27,900
$ 28,019	$ 33,102	$ 41,991	$ 38,374	$ 24,566	$ 24,557	$ 25,609
$ 95,496	$ 78,751	$ 83,392	$ 91,510	$ 79,337	$ 69,949	$ 76,767
$702,283	$618,838	$546,307	$501,156	$480,353	$435,935	$356,824
$263,805	$236,215	$210,433	$184,378	$160,569	$140,792	$125,115
$ 8,134	$ 7,501	$ 7,533	$ 7,557	$ 9,820	$ 10,229	$ 7,929
$542,108	$468,875	$426,799	$415,845	$408,941	$375,321	$316,405
$130,705	$ 80,530	$ 58,100	$ 68,624	$ 86,881	$ 79,436	$ 52,444
$104,200	$ 94,750	$ 93,750	$101,256	$101,617	$ 88,676	$ 69,770
$307,203	$293,595	$274,949	$245,965	$220,443	$207,209	$192,903
2,468	2,322	2,279	2,180	1,879	1,877	1,785
$ 1.74	$ 2.07	$ 2.64	$ 2.41	$ 1.52	$ 1.52	$ 1.61
7.4%	10.0%	12.6%	13.7%	9.3%	9.1%	9.5%
5.5%	7.4%	10.0%	9.3%	6.3%	7.1%	8.9%
9.7%	12.2%	17.2%	17.8%	12.4%	13.3%	15.5%
$ 18.33	$ 17.48	$ 16.29	$ 14.43	$ 12.71	$ 11.83	$ 10.91
$ 0.90	$ 0.87½	$ 0.80	$ 0.70	$ 0.60	$ 0.60	$ 0.57½
$ 4.75	$ 4.75	$ 4.75	$ 4.75	$ 4.75	$ 4.75	$ 3.17
$ 12,980	$ 18,470	$ 28,534	$ 26,443	$ 14,150	$ 14,132	$ 15,974
$ 52,029	$ 69,873	$ 43,016	$ 18,449	$ 22,748	$ 56,906	$ 38,244
$ 32,916	$ 2,735	$ 3,915	$ 3,499	$ 23,320	$ 27,494	$ 6,816
$ 15,039	$ 14,632	$ 13,457	$ 11,931	$ 10,416	$ 10,425	$ 9,635
17,958	19,511	20,183	20,444	19,696	19,805	18,818
95.7%	95.0%	94.2%	93.7%	92.7%	90.5%	90.0%
9,300	8,600	8,600	7,800	8,100	8,400	8,600

Dominion Foundries and Steel, Limited

Mirko Klasnja, a Blacksmith in central maintenance has worked for Dofasco for twenty-five years

Subsidiaries	Percentage Ownership
National Steel Car Corporation, Limited, Hamilton, Ontario*	100.0%
Prudential Steel Ltd., Calgary, Alberta*	100.0%
BeachviLime Limited, Beachville, Ontario*	100.0%

Mining Interests	
Adams Mine, Kirkland Lake, Ontario*	100.0%
Sherman Mine, Temagami, Ontario*	90.0%
Wabush Mines,* comprising: Scully Mine, Wabush, Newfoundland; Arnaud Pellets, Pointe Noire, Quebec	16.4%
Eveleth Expansion Company, Minnesota†	16.0%
Kimberley Ventures, Australia	13.3%
Itmann Coal Company, West Virginia†	9.0%

Corporate Joint Ventures	
Baycoat Limited, Hamilton, Ontario†	50.0%
International Portable Pipe Mills Ltd., Alberta†	47.8%
Arnaud Railway Company, Quebec†	16.4%
Wabush Lake Railway Company, Limited, Newfoundland†	16.4%
Knoll Lake Minerals Limited, Newfoundland†	9.5%
Northern Airport Limited, Newfoundland†	8.2%
Northern Land Company Limited, Newfoundland†	8.2%
Twin Falls Power Corporation, Limited, Newfoundland†	2.8%

Transfer Agents and Registrars

National Trust Company, Limited—
Toronto, Montreal, Vancouver, Winnipeg, Calgary

Canada Permanent Trust Company—Halifax

The Bank of Nova Scotia Trust Company of New York—
New York

*Ownership interest consolidated in Financial Statements

†Included under "Investments" in Financial Statements

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